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Sewerage District No. 1 of Tangipahoa Parish

Annual Financial Statements

As of and for the Year Then Ended December 31, 2006
With Supplemental Information Schedules

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9/5/07



BRUCE HARRELL & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

Sewerage District No. 1 of Tangipahoa Parish
Annual Financial Statements
As of and for the Year Ended December 31, 2006
With Supplemental Information Schedules

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Independent Auditor's Report

To Board of Commissioners
Sewerage District No. 1 of Tangipahoa Parish
Hammond, Louisiana

We have audited the accompanying financial statements of the business-type activities of the Sewerage District No. 1 of Tangipahoa Parish as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Sewerage District No. 1 of Tangipahoa Parish's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sewerage District No. 1 of Tangipahoa Parish, as of December 31, 2006, and the respective changes in the financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2007 on our consideration of the Sewerage District No. 1 of Tangipahoa Parish's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Commissioners
Sewerage District No. 1 of Tangipahoa Parish
Tangipahoa Parish Council
Hammond, Louisiana
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The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

A handwritten signature in cursive script that reads "Bruce Harrell & Co." with a period at the end.

August 17, 2007

Management's Discussion and Analysis

Sewerage District No. 1 of Tangipahoa Parish

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Introduction

The Sewerage District No. 1 of Tangipahoa Parish (the District) is pleased to present its Annual Financial Statements developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (GASB 34), and related standards.

The District's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position, (d) identify any significant variations from the District's financial plan, and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the District's financial statements and the accompanying financial statement footnotes.

Financial Highlights

- At December 31, 2006, total assets were \$5,272,663, and exceeded liabilities in the amount of \$3,445,503 (i.e., net assets). Of the total net assets, \$381,897 was unrestricted and available to support short-term operations, with \$3,010,254 invested in capital assets, net of related debt, and the balance of \$53,352 restricted for capital projects and debt service. Total net assets increased \$455,688, primarily due to increases in sewer charges and impact fees created through a change in the rate structure.
- For the year ended December 31, 2006, user fee revenues increased approximately 42% from \$833,248 as compared to \$586,206 for the fiscal year ending December 31, 2005.
- The District's operating expenses, consisting of those expenses resulting from the District's ongoing operations, other than non-recurring expenses, depreciation expense, and interest expense, decreased by \$56,580 or 8%. The major components of the decrease were salaries and wages of \$15,561, billing costs \$15,370, and engineering and surveyor fees \$33,168, with increases in various accounts including plant maintenance.
- Total long term debt decreased by the bond principal payments made of \$36,998 during the fiscal year ending December 31, 2006 to \$1,723,297.

Sewerage District No. 1 of Tangipahoa Parish

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Overview of the Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Sewerage District No. 1 of Tangipahoa Parish's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The Balance Sheet provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule, key information schedules on operation of the District, and schedules detailing audit findings and management response, as well as required reports for Single Audit disclosure.

Financial Analysis

The purpose of financial analysis is to help determine whether Sewerage District No. 1 of Tangipahoa Parish is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Balance Sheet, and the Statement of Revenues, Expenses, and Changes in Net Assets, are presented below in condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

Sewerage District No. 1 of Tangipahoa Parish

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Condensed Balance Sheet 2006 and 2005

	2006	2005	Dollar Change	Percentage Change
Assets:				
Current and Other Assets	\$ 539,112	\$ 176,630	\$ 362,482	205%
Capital Assets	4,733,551	4,742,514	(8,963)	0%
Total Assets	<u>5,272,663</u>	<u>4,919,144</u>	<u>353,519</u>	7%
Liabilities:				
Long-Term Debt Outstanding	1,723,297	1,760,295	(36,998)	-2%
Other Liabilities	103,863	169,034	(65,171)	-39%
Total Liabilities	<u>1,827,160</u>	<u>1,929,329</u>	<u>(102,169)</u>	-5%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	3,010,254	2,982,219	28,035	1%
Restricted for Capital Activity and Debt Service	53,352	-	53,352	100%
Unrestricted	381,897	7,596	374,301	4928%
Total Net Assets	<u>\$ 3,445,503</u>	<u>\$ 2,989,815</u>	<u>\$ 455,688</u>	15%

Current and Other Assets includes current assets for operations, restricted assets, and other assets. This category has increased significantly, with \$238,731 of the \$362,482 increase in Current and Other Assets consisting of an increase in unrestricted cash reserves that will be used in part for planned capital improvements. Restricted cash increased by \$41,100 as deposits were made in accordance with requirements of bond debt agreements.

Capital Assets decreased by \$8,963 since the charge for accumulated depreciation exceeded the value of assets purchased or capitalized in the current fiscal year. Additional detail for capital asset additions and deletions is included within this *Management's Discussion and Analysis* in the section entitled "Capital Assets".

Long-term debt decreased by \$36,998 at December 31, 2006, to \$1,723,297, reflecting debt reduction payments for the fiscal year.

Total net assets (total assets less total liabilities) increased by \$455,688 for the fiscal year ending December 31, 2006. The largest increase was \$374,301 for Unrestricted net assets due primarily to the increases noted above for Current and Other Assets.

Sewerage District No. 1 of Tangipahoa Parish

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

**Condensed Statement of Revenues, Expenses and Changes in Net Assets
2006 and 2005**

	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2005</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Revenues:				
Operating Revenues	\$ 1,266,100	\$ 619,780	\$ 646,320	104%
Nonoperating Revenues	61,151	4,746	56,405	1188%
Total Revenues	<u>1,327,251</u>	<u>624,526</u>	<u>702,725</u>	113%
Expenses:				
Depreciation Expense	164,014	145,348	18,666	13%
Other Operating Expense	622,558	679,138	(56,580)	-8%
Nonoperating Expense	84,991	87,387	(2,396)	-3%
Total Expenses	<u>871,563</u>	<u>911,873</u>	<u>(40,310)</u>	-4%
Income (Loss) Before Contributions	455,688	(287,347)	743,035	-259%
Capital Contributions	-	10,277	(10,277)	-100%
Changes in Net Assets	<u>455,688</u>	<u>(277,070)</u>	<u>732,758</u>	-264%
Beginning Net Assets	2,989,815	3,266,885	(277,070)	-8%
Ending Net Assets	<u>\$ 3,445,503</u>	<u>\$ 2,989,815</u>	<u>\$ 455,688</u>	15%

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table shows an increase in net assets of \$455,688 for the fiscal year ending December 31, 2006 as does the Condensed Balance Sheet on the prior page.

The District's total revenues increased by \$702,725 due primarily to continued growth of the District, which added 169 customers for the current fiscal year. The major component of the increase in revenues was for sewer sales increasing by \$247,042 from the prior fiscal year as a new rate structure was implemented, and an increase in impact fees (administrative charges) in the amount of \$406,852.

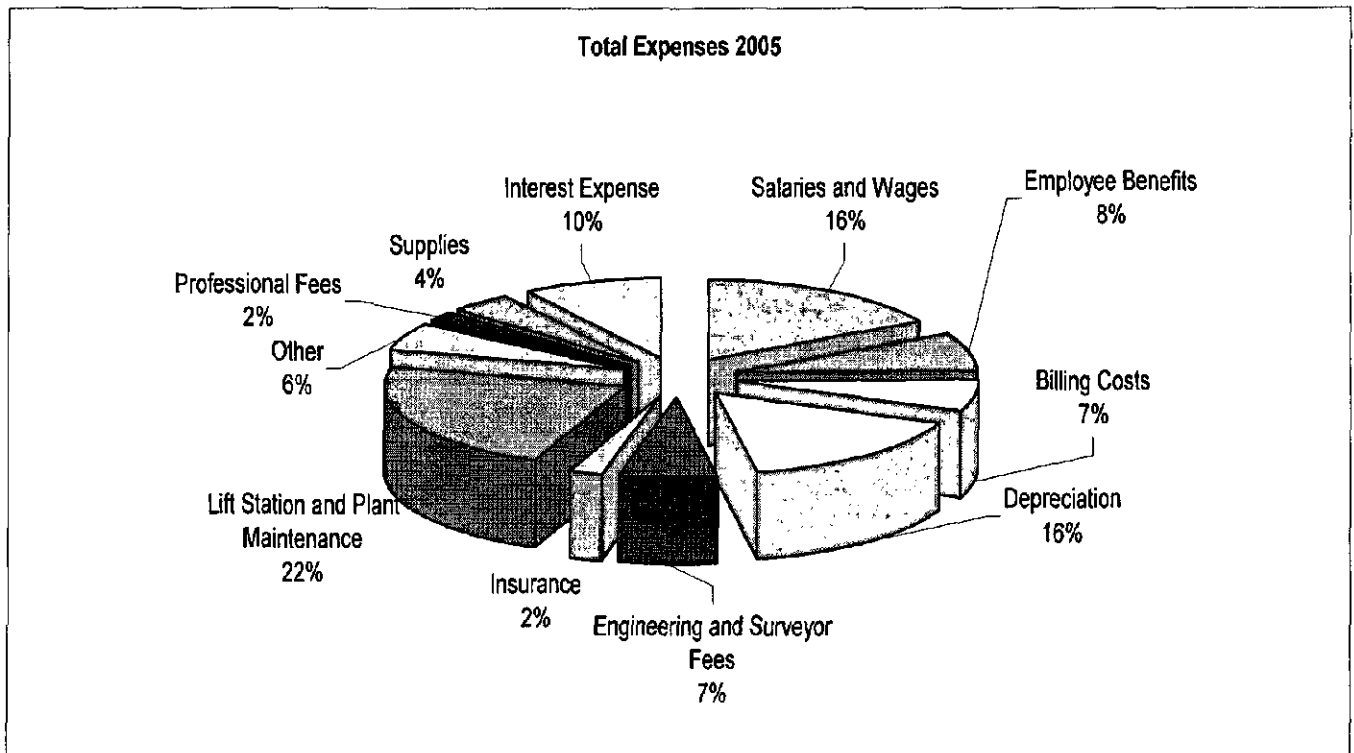
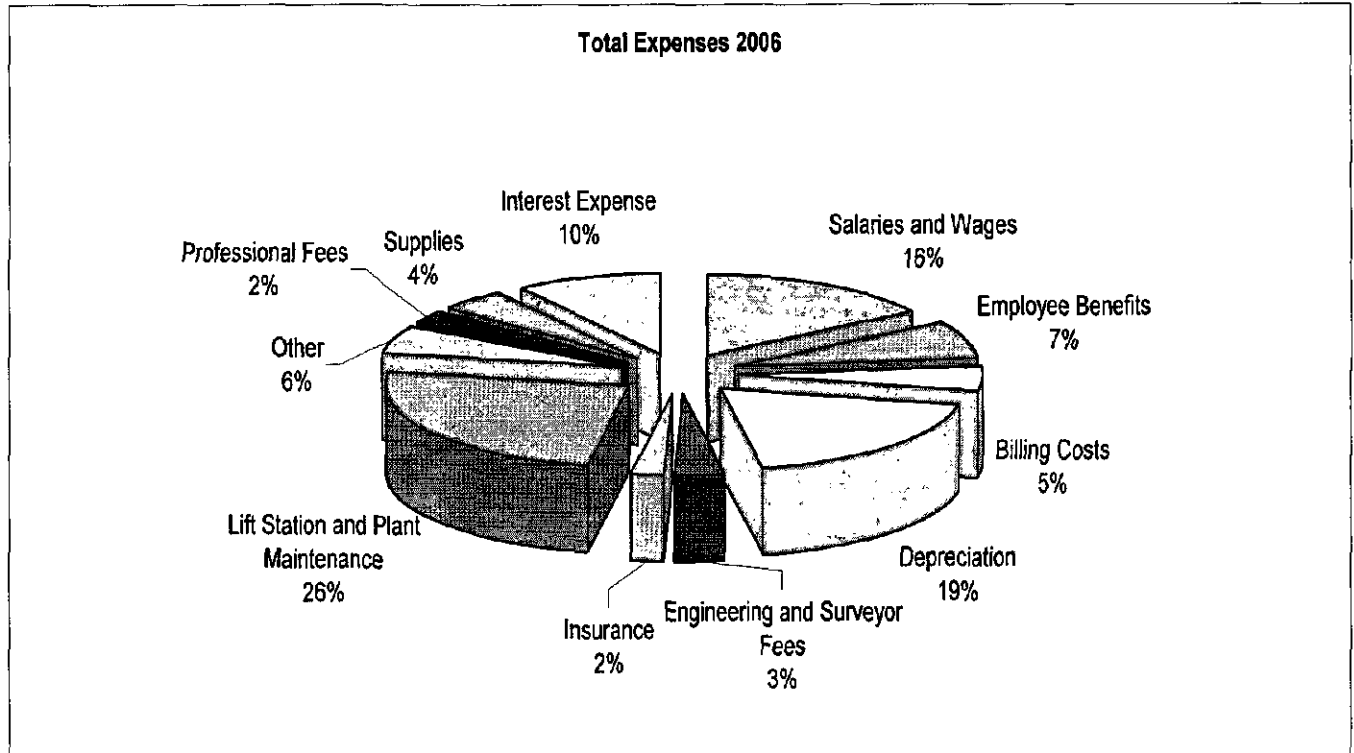
The District's operating expenses, consisting of those expenses resulting from the District's ongoing operations, other than non-recurring expenses, depreciation expense, and interest expense, decreased by \$56,580 as compared to the prior fiscal year, totaling \$622,558 for the fiscal year ended December 31, 2006. The major components of the decrease were a \$33,168 decrease in engineering and surveyor fees, a \$15,370 decrease in billing costs, and a \$15,561 decrease for wages, within increases in several expense accounts including plant maintenance.

As noted, the District showed an increase of \$455,688 in Ending Net Assets, primarily because of increases in current assets from the addition of 169 customers, a change in the rate structure, and implementation of impact fees (administrative charges) to cover the cost of meeting health standards for new and existing sewerage systems donated to the District for continued maintenance.

Sewerage District No. 1 of Tangipahoa Parish

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

The charts on the following page show a comparative percentage breakdown of expenses for the years ending December 31, 2006 and 2005.



Sewerage District No. 1 of Tangipahoa Parish

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Budgetary Highlights

Sewerage District No. 1 of Tangipahoa Parish adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information, following the footnotes to the financial statements.

Budget vs. Actual - Fiscal Year ended December 31, 2006

	Budget Year ended December 31, 2006	Actual Year ended December 31, 2006	Favorable (Unfavorable) Variance
Revenues:			
Operating Revenues	\$ 756,446	\$ 1,266,100	\$ 509,654
Nonoperating Revenues	5,000	61,151	56,151
Total Revenues	761,446	1,327,251	565,805
Expenses:			
Depreciation Expense	150,000	164,014	(14,014)
Other Operating Expense	590,485	622,558	(32,073)
Nonoperating Expense	55,000	84,991	(29,991)
Total Expenses	795,485	871,563	(76,078)
Income (Loss)	\$ (34,039)	\$ 455,688	\$ 489,727

- Actual revenues for the fiscal year ended December 31, 2006 showed an increase of \$565,805 over final budgeted revenues. The greatest difference coming from actual impact fees \$406,852, which were not budgeted.
- Actual expenses, including depreciation, showed an unfavorable variance to the final budget in the amount of \$76,078. The unfavorable variance is primarily in the following operating expense categories:
 - Depreciation expense was under budgeted by \$14,014 due to new construction in progress being put into use and depreciated in 2006.
 - Interest expense was under budgeted by \$29,991. The budgeted expense amount should have been amended to the 2005 amount which was \$87,387.
 - Northwood Lift Station was under budgeted by \$15,764 due to unforeseen repairs in 2006.

Sewerage District No. 1 of Tangipahoa Parish

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

General Operating Data

	<u>December 31, 2006</u>	<u>December 31, 2005</u>	<u>Increase (Decrease)</u>
Customers			
Residential	1,849	1,689	160
Commercial	31	22	9
Total Customers	<u>1,880</u>	<u>1,711</u>	<u>169</u>

One key measure of the District's profitability, and the ability to generate positive cash flows, is the ability of the sewer system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2006 and 2005.

	<u>Year Ended December 31, 2006</u>	<u>Year Ended December 31, 2005</u>	<u>Increase (Decrease)</u>
Accounts Receivable			
Current	\$ 52,635	\$ 61,942	\$ (9,307)
31-60 Days Past Due	6,705	7,891	(1,186)
61-90 Days Past Due	2,503	2,946	(443)
Over 90 Days Past Due	<u>37,186</u>	<u>43,760</u>	<u>(6,574)</u>
Subtotal	99,029	116,539	(17,510)
Allowance for Uncollectible Accounts	<u>(31,680)</u>	<u>(23,033)</u>	<u>(8,647)</u>
Net Accounts Receivable	<u>\$ 67,349</u>	<u>\$ 93,506</u>	<u>\$ (26,157)</u>

Total receivables for sewer service decreased due to the District's continued efforts in collecting bills and in writing off accounts as they become past due. The total of \$31,680 listed as the allowance for uncollectible accounts reflects past due amounts from prior fiscal years and was removed subsequent to fiscal year end from the utility system billing program of the District's primary billing agent, and the past due accounts were referred for collection.

Sewerage District No. 1 of Tangipahoa Parish

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2006**

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ending December 31, 2006, Sewerage District No. 1 of Tangipahoa Parish had \$4,733,551 (net of accumulated depreciation) recorded in capital assets. The changes in capital assets are presented in the table below.

	<u>December 31, 2006</u>	<u>December 31, 2005</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Capital Assets				
Land	267,586	267,586	-	0%
Construction in Progress	322,465	1,655,546	(1,333,081)	-413%
Buildings	2,135	2,135	-	0%
Equipment	180,407	179,156	1,251	1%
Sewer System	5,464,876	3,977,995	1,486,881	27%
Subtotal	6,237,469	6,082,418	155,051	2%
Less: Accumulated Depreciation	(1,503,918)	(1,339,904)	164,014.00	-11%
Net Capital Assets	<u>4,733,551</u>	<u>4,742,514</u>	<u>319,065</u>	7%

The above schedule includes \$145,900 in current year construction costs and \$1,478,986 completed construction costs (net of reclassifications) for the fiscal year ended December 31, 2006.

Long-Term Debt

The primary source of long-term financing for Sewerage District No. 1 of Tangipahoa Parish is revenue bonds financed by the United States Department of Agriculture, Rural Utilities Service (RUS), with one revenue bond of \$225,000 issued through a private lending institution in fiscal year 2005. Interim financing, pending completion of construction, is generally financed by private financial institutions, or through low-interest programs of the Louisiana Public Facilities Authority. Interest rates for long-term debt financed through RUS and a private lending institution at December 31, 2006, range from 4.25% to 5.625%, with initial payment terms for bonds generally at 40 years.

Bonds financed for Sewerage District No. 1 of Tangipahoa Parish require a specific ratio (120%) of net revenues (before interest expense, depreciation, and other non-cash flow items) to debt service requirements (including bond installments, and required deposits for Reserve Fund & Depreciation and Contingency Fund). The actual ratio for the fiscal year ending December 31, 2006 was 537%, well exceeding the required ratio of 120% and reflecting the accumulation of reserves required to meet continued growth requirements in the post-Katrina era.

Sewerage District No. 1 of Tangipahoa Parish

Management's Discussion and Analysis As of and for the Year Ended December 31, 2006

Future Economic Plans

The District continues to grow to match population increases and commercial growth in Tangipahoa Parish. With this continued growth, the District must develop plans not only to meet the needs of its existing citizens but must continually plan for the future. In this process the District must continually review its financial structure to ensure a continuity of services, while reviewing options for financing capital projects that meet health and environmental standards and encourage planned development.

Requests for Information

This financial report is designed to provide a general overview of Sewerage District No. 1 of Tangipahoa Parish's finances and to demonstrate the District's accountability. If you have questions regarding this report or need additional information, contact the District at 1541 Club Deluxe Road, Hammond, LA 70403. The phone number for the District is 985-542-8574.

Financial Statements

Sewerage District No. 1 of Tangipahoa Parish
Comparative Balance Sheet
As of December 31, 2006 and 2005

Statement A

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 404,333	\$ 56,317
Receivables, Net :		
Accounts	67,349	93,506
Due From Other Governments	-	15,155
Prepaid Insurance	14,078	11,652
Total Current Assets	<u>485,760</u>	<u>176,630</u>
Restricted Assets:		
Restricted Cash and Cash Equivalents	53,352	-
Total Restricted Assets	<u>53,352</u>	<u>-</u>
Property, Plant, and Equipment		
Land	267,586	267,586
Construction in Progress	322,465	1,655,546
Property, Plant and Equipment, Net	4,143,500	2,819,382
Total Property, Plant, and Equipment	<u>4,733,551</u>	<u>4,742,514</u>
Total Assets	<u>5,272,663</u>	<u>4,919,144</u>
Liabilities		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	15,190	61,309
Other Accrued Payables	59,053	101,965
Due To Other Governments	22,377	-
Total Current Liabilities (Payable From Current Assets)	<u>96,620</u>	<u>163,274</u>
Current Liabilities (Payable From Restricted Assets):		
Accrued Interest	7,243	5,760
Revenue Bonds Payable	36,307	34,991
Total Current Liabilities (Payable From Restricted Assets)	<u>43,550</u>	<u>40,751</u>
Long Term Liabilities:		
Bonds Payable	1,686,990	1,725,304
Total Long Term Liabilities	<u>1,686,990</u>	<u>1,725,304</u>
Total Liabilities	<u>1,827,160</u>	<u>1,929,329</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,010,254	2,982,219
Restricted for:		
Capital Projects and Debt Service	53,352	-
Unrestricted	381,897	7,596
Total Net Assets	<u>\$ 3,445,503</u>	<u>\$ 2,989,815</u>

The accompanying notes are an integral part of this statement

Statement B

Sewerage District No. 1 of Tangipahoa Parish
Comparative Statement of Revenues, Expenses, and Changes in Net Assets

For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Sewer Service Charges	\$ 833,248	\$ 586,206
Impact Fees	406,852	-
Connection Fees	25,875	25,406
Other	125	8,168
Total Operating Revenues	<u>1,266,100</u>	<u>619,780</u>
Operating Expenses		
Salaries and Wages	138,247	153,808
Employee Benefits	64,560	70,902
Bad Debts	8,647	9,289
Billing Costs	44,006	59,376
Depreciation	164,014	145,348
Director's Expense	2,200	5,800
Engineering and Surveyor Fees	28,777	61,945
Insurance	20,367	19,617
Lift Station and Plant Maintenance	216,935	208,627
Other	15,000	12,685
Professional Fees	21,231	18,233
Rent	1,249	2,288
Repairs and Maintenance	12,612	6,931
Supplies	37,913	36,158
Vehicle Expenses	10,814	13,479
Total Operating Expenses	<u>786,572</u>	<u>824,486</u>
Operating Income (Loss)	<u>479,528</u>	<u>(204,706)</u>
Nonoperating Revenues (Expenses)		
USDA Rural Development Grant	46,958	-
Interest Income	14,193	4,746
Interest Expense	(84,991)	(87,387)
Total Nonoperating Revenues (Expenses)	<u>(23,840)</u>	<u>(82,641)</u>
Income (Loss) Before Contributions	<u>455,688</u>	<u>(287,347)</u>
Contributions		
Capital Contributions	-	10,277
Change in Net Assets	455,688	(277,070)
Total Net Assets, Beginning	2,989,815	3,266,885
Total Net Assets, Ending	<u>\$ 3,445,503</u>	<u>\$ 2,989,815</u>

The accompanying notes are an integral part of this statement

Statement C

Sewerage District No. 1 of Tangipahoa Parish
Comparative Statement of Cash Flows
Proprietary Fund Type
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 1,292,132	\$ 611,952
Other Receipts	15,280	-
Payments for Operations	(488,831)	(421,602)
Payments to Employees	(202,807)	(225,858)
Net Cash Provided by Operating Activities	<u>615,774</u>	<u>(35,508)</u>
Cash Flows From Capital and Related Financing Activities		
Capital Grants Received	46,958	305,600
(Payments for) Capital Acquisitions	(155,051)	(487,713)
Principal Proceeds from (Repayments for) Long Term Debt	(36,998)	(42,808)
Interest Payments for Long Term Debt	(83,508)	(74,554)
Net Cash (Used) by Capital and Related Financing Activities	<u>(228,599)</u>	<u>(299,475)</u>
Cash Flows From Investing Activities		
Receipt of Interest	14,193	4,746
Net Cash Provided by Investing Activities	<u>14,193</u>	<u>4,746</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	401,368	(330,237)
Cash and Cash Equivalents, Beginning of Year	56,317	386,554
Cash and Cash Equivalents, End of Year	<u>\$ 457,685</u>	<u>\$ 56,317</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:		
Cash and Cash Equivalents, Unrestricted	\$ 404,333	\$ 56,317
Cash and Cash Equivalents, Restricted	53,352	-
Total Cash and Cash Equivalents	<u>\$ 457,685</u>	<u>\$ 56,317</u>

(Continued)

The accompanying notes are an integral part of this statement

Statement C

Sewerage District No. 1 of Tangipahoa Parish
 Comparative Statement of Cash Flows
 Proprietary Fund Type
 For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by		
Operating Activities		
Operating Income (Loss)	\$ 479,528	\$ (204,706)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by		
Operating Activities:		
Depreciation	164,014	145,348
(Increase) decrease in Accounts Receivable	26,157	2,449
(Increase) decrease in Other Receivables	15,155	(989)
(Increase) decrease in Prepaid Insurance	(2,426)	(11,652)
Increase (decrease) in Accounts Payable	(46,119)	40,600
Increase (decrease) in Accrued Expenses	(20,535)	(6,558)
Net Cash Provided (Used) by Operating Activities	<u>\$ 615,774</u>	<u>\$ (35,508)</u>

(Concluded)

The accompanying notes are an integral part of this statement

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

Introduction

In 1985, the Tangipahoa Parish Police Jury (now Tangipahoa Parish Council) voted to create a parish wide sewer district, in accordance with Louisiana Revised Statute 33:3811, thus creating the Sewer District No. 1 of Tangipahoa Parish. The Sewer District No. 1 of Tangipahoa Parish is governed by a board of commissioners consisting of five members. The board is appointed by the parish council and paid according to the number of meetings attended. The District encompasses all non-incorporated areas, with a few exclusions for some previously franchised areas of Tangipahoa Parish. At December 31, 2006, Sewerage District No. 1 of Tangipahoa Parish provided service to a total of 1,880 customers.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, Sewerage District No. 1 of Tangipahoa Parish is considered a component unit of the Tangipahoa Parish Council.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that require capital contributions to the District be presented as a change in net assets.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The term measurement focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are user charges for the services provided by the enterprise funds, and impact fees (administrative charges) for the cost of providing services to new and existing sewer systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Cash and Cash Equivalents and Investments

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- When held the District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost
- There is no involuntary participation in an external investment pool.

The District does not have any investments at December 31, 2006.

D. Inventories

Purchases of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

F. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including sewer systems donated for continued maintenance by the District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	7 Years
Machinery and Equipment	5 - 7 Years
Sewer System	24 - 40 Years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

H. Compensated Absences

The District has the following policy related to vacation and sick leave:

Employees earn five days of paid vacation after working full-time for one year, ten days of paid vacation after working full-time for three years, and fifteen days of paid vacation after working full-time for ten years. Employees are not allowed to accumulate vacation leave, unless there is a business need. Overtime can be earned from the first day of employment.

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

GASB Statement No. 16 provides that a liability for sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. Accordingly, the District has not accrued liability for sick leave.

I. Long-Term Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Net Assets

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

K. Comparative Data/Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the municipality, which are either unusual in nature or infrequent in occurrence.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

At December 31, 2006, the District has cash and cash equivalents (book balances), as follows:

	December 31, 2006	December 31, 2005
Interest Bearing Demand Deposits	\$ 457,685	\$ 56,317
	<u>\$ 457,685</u>	<u>\$ 56,317</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2006, the municipality had \$493,502 in deposits (collected bank balances) with the total deposits of \$493,502 consisting of demand deposits. These deposits are secured from risk by \$100,000 of federal deposit insurance and \$393,502 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the municipality that the fiscal agent has failed to pay deposited funds upon demand.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

3. Receivables

The following is a summary of receivables at December 31, 2006 and 2005:

	<u>Year Ended December 31, 2006</u>	<u>Year Ended December 31, 2005</u>	<u>Increase (Decrease)</u>
Accounts Receivable			
Current	\$ 52,635	\$ 61,942	\$ (9,307)
31-60 Days Past Due	6,705	7,891	(1,186)
61-90 Days Past Due	2,503	2,946	(443)
Over 90 Days Past Due	37,186	43,760	(6,574)
Subtotal	99,029	116,539	(17,510)
Allowance for Uncollectible Accounts	(31,680)	(23,033)	(8,647)
Net Accounts Receivable	<u>\$ 67,349</u>	<u>\$ 93,506</u>	<u>\$ (26,157)</u>

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. The Board of Commissioners of Sewerage District No. 1 of Tangipahoa Parish established an allowance for uncollectible accounts based on past experience in customer collections. Periodically, the Board reviews the aging of receivables and determines the actual amounts uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility. For the fiscal year ending December 31, 2006, the District had recorded \$8,647 in bad debt expense. Subsequent to fiscal year end, the Board authorized write-off of \$31,680 of old debts by Tangipahoa Water District, the District's primary billing agent. The accounts were referred to legal counsel to determine legal alternatives for the collection of past due customer balances.

4. Restricted Assets

The following is a summary of restricted assets at December 31, 2006 and 2005:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Restricted Cash and Cash Equivalents		
Bond Reserve Account	\$ 20,550	\$ -
Bond Contingency Account	20,550	-
Construction Account	12,252	-
Total Restricted Assets	<u>\$ 53,352</u>	<u>\$ -</u>

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

5. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2006 is as follows:

	Beginning Balance 12/31/05	Additions and Reclassifications	Deletions and Reclassifications	Ending Balance 12/31/06
Capital Assets				
Land	\$ 267,586	\$ -	\$ -	\$ 267,586
Construction in Progress	1,655,546	153,800	(1,486,881)	322,465
Buildings	2,135	-	-	2,135
Machinery and Equipment	179,156	1,251	-	180,407
Vehicles	-	-	-	-
Sewer System	3,977,995	-	1,486,881	5,464,876
Total Capital Assets	6,082,418	155,051	-	6,237,469
Less Accumulated Depreciation	(1,339,904)	(164,014)	-	(1,503,918)
Total Capital Assets, Net	\$ 4,742,514	\$ (8,963)	\$ -	\$ 4,733,551

Accumulated Depreciation increased by depreciation expense for the fiscal year ending December 31, 2006, totaled \$164,014. The above schedule includes \$145,900 current construction expenditures (net of reclassifications) and fiscal year end, and \$1,478,986 (net of reclassifications) reclassified from construction in progress to Sewer System plant assets as construction was completed.

Equipment, furniture and fixtures are depreciated using useful lives of 5 to 10 years, and the sewer system uses a useful life of 20 to 50 years. All assets are depreciated under the straight-line method.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

6. Accounts Payable and Accrued Liabilities

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Accounts Payable and Accrued Liabilities				
Accounts Payable	\$ 15,190	\$ 61,309	\$ (46,119)	-75%
Other Accrued Liabilities			-	
Other	-	15,155	(15,155)	-100%
Payroll Taxes	2,393	-	2,393	100%
Retainage	32,849	71,427	(38,578)	-54%
Retirement	7,061	-	7,061	100%
Vacation	10,240	-	10,240	100%
Wages	6,510	15,383	(8,873)	-58%
Total Other Accrued Liabilities	<u>59,053</u>	<u>101,965</u>	<u>(42,912)</u>	-42%
Total Accounts Payable and Accrued Liabilities	<u>\$ 74,243</u>	<u>\$ 163,274</u>	<u>\$ (89,031)</u>	-55%

The District also recorded at total of \$22,377 due to the Tangipahoa Parish Council for bond debt installments paid by the Council on behalf of the District, and for administrative fees charged to various funds by the Parish Council. A discussion of additional amounts owed to the Tangipahoa Parish Council is included in *Footnote 12 – Contingent Liabilities*.

7. Retirement

Plan Description: Substantially all full-time employees of Sewerage District No. 1 of Tangipahoa Parish are members of the Parochial Employees' Retirement System of Louisiana (System), a multi-employer (cost-sharing), public employee retirement system (PERS), controlled and administered by a separate board of trustees. The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the District are members of Plan A.

All permanent employees working at least 28 hours per week who are paid wholly or in part from parish funds and all elected parish officials are eligible to participate in the System. Under Plan A, employees who retire at or after age 60 with at least ten years of creditable service, at or after age 55 with at least 25 years of creditable service, or at any age with at least 30 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to three percent of their final-average salary for each year of creditable service. However, for these employees who were members of the supplemental plan only prior to January 1, 1980, the benefit is equal to one percent of final average salary plus \$24.00 for each year of supplemental-plan-only service earned prior to January 1, 1980. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above and do not withdraw their employee contributions may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established by the state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

Parochial Employees' Retirement System, Post Office Box 14619, Baton Rouge, Louisiana 70898-47619, or by calling (225) 928-1361.

Funding Policy. Under Plan A, members are required by state statute to contribute 9.5 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 12.75 percent of annual covered payroll. Contributions to the System include one-fourth (1/4) of one (1%) percent of the taxes shown to be collectible by the tax rolls of each parish, except Orleans and East Baton Rouge Parishes. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the District are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by an actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The District's contribution to the System under Plan A for the years ending was \$16,782, with the amount of employer's contribution included within the employee benefits category.

8. Long-Term Obligations

The following is a summary of long-term obligation transactions for the year ended December 31, 2006:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-Term Debt					
Sewer Revenue Bonds 92-01	\$ 651,319	\$ -	\$ (10,437)	\$ 640,882	\$ 10,600
Sewer Revenue Bonds 92-02	59,344	-	(965)	58,379	1,050
Sewer Revenue Bonds 92-03	715,503	-	(9,570)	705,933	8,000
Sewer Revenue Bonds 92-05	112,680	-	(1,385)	111,295	1,350
Sewer Revenue Bonds Series 2005	221,449	-	(14,641)	206,808	15,307
Total Long-Term Debt	<u>\$ 1,760,295</u>	<u>\$ -</u>	<u>\$ (36,998)</u>	<u>\$ 1,723,297</u>	<u>\$ 36,307</u>

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

Bonds Payable as of December 31, 2006 and 2005 is as follows:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Revenue Bond \$ 733,000 Sewer System - Rural Utility Services 92-01, Sewer revenue bonds sold to Rural Utilities Service, U.S. Dept of Agriculture. Dated 3/3/1993 due in monthly installments of principal and interest of \$ 3,900 through 4/3/2033 , interest at 5.625%.	\$ 640,882	\$ 651,319
Revenue Bond \$ 67,000 Sewer System - Rural Utility Services 92-02 Sewer revenue bonds sold to Rural Utilities Service, U.S. Dept of Agriculture. Dated 3/3/1993 due in monthly installments of principal and interest of \$ 356 through 4/3/2033 , interest at 5.625%.	58,379	59,344
Revenue Bond \$ 723,000 Sewer System - Rural Utility Services 92-03 Sewer revenue bonds sold to Rural Utilities Service, U.S. Dept of Agriculture. Dated 9/25/2003 due in monthly installments of principal and interest of \$ 3,167 through 10/25/2043 , interest at 4.25%.	705,933	715,503
Revenue Bond \$ 114,000 Sewer System - Rural Utility Services 92-05 Sewer revenue bonds sold to Rural Utilities Service, U.S. Dept of Agriculture. Dated 9/25/2003 due in monthly installments of principal and interest of \$ 499 through 10/25/2043 , interest at 4.25%.	111,295	112,680
Revenue Bond \$ 225,000 Sewer System - Iberia Bank Series 2005 Dated 3/23/2005 due in monthly installments of principal and interest of \$ 2,025 through 8/1/2017 , interest at 4.25%.	206,808	221,449
	\$ 1,723,297	\$ 1,760,295

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

The annual requirements to amortize all debt outstanding as of December 31, 2006, including interest payments of \$1,501,196 are as follows:

Year Ending 12/31/06	Sewer Revenue Bonds 92-01 \$ 733,000	Sewer Revenue Bonds 92- 02 \$ 67,000	Sewer Revenue Bonds 92- 03 \$ 723,000	Sewer Revenue Bonds 92-04 \$ 114,000	Sewer Revenue Bonds Series 2005 \$ 225,000	Total
2007	\$ 46,795	\$ 4,277	\$ 38,001	\$ 5,992	\$ 24,300	\$ 119,365
2008	46,795	4,277	38,001	5,992	24,300	119,365
2009	46,795	4,277	38,001	5,992	24,300	119,365
2010	46,795	4,277	38,001	5,992	24,300	119,365
2011	46,795	4,277	38,001	5,992	24,300	119,365
2012 to 2016	233,974	21,386	190,004	29,959	121,501	596,824
2017 to 2021	233,974	21,386	190,004	29,959	16,200	491,523
2022 to 2026	233,974	21,386	190,004	29,959		475,323
2027 to 2031	233,974	21,386	190,004	29,959		475,323
2032 to 2036	62,393	5,703	190,004	29,959		288,059
2037 to 2041	-	-	190,004	29,959		219,963
2042 to 2043	-	-	69,668	10,985		80,653
	<u>\$ 1,232,264</u>	<u>\$ 112,632</u>	<u>\$ 1,399,697</u>	<u>\$ 220,699</u>	<u>\$ 259,201</u>	<u>\$ 3,224,493</u>

9. Sewer Revenue Bond Resolution Covenants

As of December 31, 2006, the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana (District), has four Revenue Bonds financed by USDA Rural Development, and one bond issued by a private lending institution. The original principal amounts of the four bond issues through Rural Development total \$1,637,000 and consist of two bonds issued on March 3, 1993, for \$733,000 and \$67,000, both issued at an annual interest rate of 5.625%, and two bonds issued on September 25, 2003, for \$723,000 and \$114,000 at an annual rate of 4.25%. Each of the bonds financed by Rural Development is a parity obligation, and the bond issue through a private lending institution of \$225,000 of Sewer Revenue bonds, Series 2005, dated March 23, 2005, with an annual interest rate of 4.25%, was also issued in parity with existing bond obligations. The resolution authorizing the issuance of the Sewer Revenue Bonds, Series 2005, in the amount of \$225,000 acknowledges that the issuance of such bonds on a parity with the "Outstanding Parity Bonds", with IBERIA BANK of Lafayette, Louisiana purchasing these bonds. The new bond resolution, covering all the bonds, specifies that the bonds shall be secured and payable in principal and interest exclusively by a pledge of the income and revenues derived or to be derived from the operation of the system. Other specific legal requirements and bond restrictions are summarized below:

- a) Provide that all income and revenues derived by the issuer from the operation of the system shall be deposited in a separate and special bank account (the "Sewer Fund") with the regularly designated fiscal agent bank of the issuer.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

- b) The issuer, the Sewerage District No. 1 of the Parish of Tangipahoa, Louisiana, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 2006, net revenues to bond deposit requirements was 537%, exceeding the required ratio of 120%. The improved ratio was due to a rate increase enacted at the beginning of fiscal year 2006, and collection of administrative charges to offset the cost of bringing new and existing donated sewer systems up to health department and environmental standards.

- c) The establishment and maintenance of a "Sewer Bond and Interest Sinking Fund" (the "Sinking Fund") sufficient in amount to pay promptly and fully the principal and interest on the bonds.

The required monthly payments for the principal and interest on the bonds are due on the 20th day of each month as follows:

01/20/2007 through 08/20/2017	\$9,947.08
09/20/2017 through 04/20/2033	\$7,922.06
05/20/2033 through 10/20/2043	\$3,666.06

The actual creation of a sinking fund was not required since the District pays required bond installments directly to Rural Utilities Service/IBERIABANK on a monthly basis.

- d) The establishment of the "Sewer Revenue Bond Reserve Fund" (the "Reserve Fund") by transferring from the Sewer Fund, the operating account of the District, monthly in advance on or before the 20th of each month a sum at least equal to five per cent (5%) of the amount to be paid each month for bond principal and interest payments. Required amounts to be transferred monthly to the "Reserve Fund" are:

09/20/2005 through 08/20/2017

A sum of \$498 per month must be deposited monthly until \$119,364.96 has been accumulated therein.

09/20/2017 through 02/20/2033

If sum accumulated in Reserve Fund exceeds \$95,064.72, then funds on deposit can be decreased to \$95,064.72; but if sum accumulated therein has not reached \$95,064.72, then monthly payments of \$397 until said sum is accumulated.

03/20/2033 through 08/20/2043

In April 2032, the funds on deposit in the Reserve Fund are to be reduced to \$43,992.72.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

The money in the Reserve Fund is required to be retained solely for the purpose of paying the principal and interest on bonds payable, upon approval by the Rural Utilities Service/IBERIABANK, for which there would otherwise be default.

During the fiscal year ended December 31, 2006, the District transferred \$20,550 from the Operating account to the Reserve Fund. The required Reserve Fund account balance at December 31, 2006, was \$35,829 and was fully funded subsequent to fiscal year as noted in Finding No. 2005-C1 within the *Summary Schedule of Prior Year Audit Findings*.

- e) The establishment and maintenance of the "Sewer Depreciation and Contingency Fund" (the "Contingency Fund") is to care for depreciation, extensions, additions, improvements and replacements necessary to properly operate the System, by transferring from the Sewer Fund, the operating account of the District, monthly in advance on or before the 20th of each month the following amounts as indicated:

09/20/2005 through 08/20/2017

Monthly payments of \$498 per month until \$119,364.96 is on deposit in the Reserve Fund, and the monthly payments then increase to \$783.

09/20/2017 through 02/20/2033

In September, 2017, monthly payments decrease to \$397 if sum on deposit in Reserve Fund is less than \$95,064.72, or if and when sum on deposit reaches \$95,064.72, then monthly payments of \$580 are required.

03/20/33 through 08/20/2043

In March 2033, monthly payments decrease to \$367.

Money in the Contingency Fund may also be used, upon approval, to pay the principal and interest on any bond for which there is not sufficient money in the Sinking Fund or the Reserve Fund.

During the fiscal year ended December 31, 2006, the District transferred \$20,550 from the Operating account to the Contingency Fund. The required Contingency Fund balance at December 31, 2006, was \$35,504 and was fully funded subsequent to fiscal year as noted in Finding No. 2005-C1 within the *Summary Schedule of Prior Year Audit Findings*.

- f) The District, in the bond resolutions dated May 12, 2003, (amended August 18, 2003), and February 9, 2005, also obligated itself to abide by the following covenants:
1. The District will shut off service if the delinquent charge, with interest and penalties accrued thereon, is not paid within thirty days from the date on which such charges become delinquent.
 2. A penalty of 10% will be charged on all delinquent accounts, and interest of not less than 5% per annum will be charged on delinquent accounts after 10 days from the date of delinquency.
 3. The District agrees to maintain the System in first class repair and working order and condition.
 4. The District will carry full insurance coverage on the System in the manner required by the Government, with a company licensed to do business under the laws of Louisiana.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

5. The District will maintain separate and correct records and accounts, and will have the books audited no later than six months after the close of each fiscal year.
7. The District will not sell, lease or in any manner dispose of the System or any substantial part thereof, provided the District may dispose of property that in its judgment is worn-out, unserviceable, unsuitable, or unnecessary in the operation of the System.
8. The District will not, except as provided by these bonds resolutions, voluntarily create or cause to be created any debt, lien pledge, mortgage, assignment, or any other charges having priority or parity with the liens of the Bonds upon the income and revenues of the System pledged as security thereof.
9. That, to the extent permitted by law, the District will not grant a franchise to any sewer utility for operation within the boundaries of the District.
10. In operation of the System, the District will require all officers and employees in a position of authority or in possession of money derived from operations of the System to be covered by a blanket fidelity bond or faithful performance bond.
11. That the District will take all action necessary to require connection to its sewer system to the extent permitted by law.
12. No free service or facilities will be furnished to any persons.

On October 29, 2001, USDA agreed in writing that as long as the District is not in default in the payment of principal and interest on the bonds that:

- (i) the period within which the District will cause service to be shut off from the date of delinquency is extended from 30 days to 90 days;
- (ii) the penalty on such delinquent charges is reduced from 10% to 5%; and
- (iii) it is not necessary that interest be charged on the delinquent account.

The District has requested written notification from the USDA that this waiver continues to apply.

During the fiscal year ended December 31, 2006, the District was in substantial compliance with bond covenants 1-12 noted above. However, this is the first year that the District has obtained a financial audit separate from the Tangipahoa Parish Council. It was noted that the District obtained insurance coverage, but the business auto policy was still carried through the Tangipahoa Parish Council since the vehicles were titled to the Parish Council. Management recommendations as relate to insurance coverage are included as Finding No. 2006-M1 with the *Corrective Action Plan for Current Year Audit Findings*.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

10. Restricted and Designated Net Assets

At December 31, 2006, Sewerage District No. 1 of Tangipahoa Parish recorded \$53,352 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

In addition, for the fiscal year ending December 31, 2006, the Board of Commissioners of Sewerage District No. 1 of Tangipahoa Parish designated a total of \$238,730 as cash reserved for future capital improvement projects. Since this designation represents an internally imposed restriction, the amount designated for capital improvements is included within the category of Unrestricted Net Assets, totaling \$381,897 at December 31, 2006.

11. Litigation

There is no outstanding litigation at December 31, 2006 for which there would be a probable settlement against the District.

12. Contingent Liabilities

Prior to the fiscal year ending December 31, 2006 the Sewerage District No. 1 of Tangipahoa Parish was reported as a component unit within the financial audit of the Tangipahoa Parish Council. During fiscal year 2006, the District obtained separate accounting services for monthly financial reporting and obtained services for a separate financial audit. During the transaction period, the Tangipahoa Parish Council made payments on behalf of the District, for which reimbursement is due the Council. As noted in Footnote 6 – *Accounts Payable and Accrued Liabilities*, the District at December 31, 2006 has recorded \$22,377 in amounts due to the Parish Council. Not included within this total are an estimated \$27,648 in payments made by the Council, consisting of \$19,182 for electricity bills, \$8,109 for business auto insurance and \$357 telephone bills. Management recommendations for payment of these amounts and to obtain further documentation detailing the amounts due are included within Finding No. 2006-M2 within the *Corrective Action Plan for Current Year Audit Findings*.

During the financial audit for the fiscal year ending December 31, 2006 and as part of review of the financial records and transactions of prior fiscal years, we noted that the Sewerage District No. 1 of Tangipahoa Parish had received \$225,000 in bond proceeds during fiscal year 2005. The bond proceeds were in large part used to pay off an existing loan. Management and bond attorney indicated that the intent was to fund a specific project, but that the bond documents specify only that the funds be used for "construction" expenditures and the purchase of "equipment" for sewerage systems. The loan paid off was a construction loan related to a sewerage system project. In addition, a total of \$176,560 was paid for the intended sewerage system project, and during fiscal year 2006, the District collected a total of \$406,852 in sewer impact fees (administrative charges) with the funds dedicated to construction to bring new and existing sewerage systems donated to the District up to health department standards. The District recorded an additional \$145,905 in construction costs for other sewerage systems in fiscal year 2006, and closed construction costs of \$1,478,986 related to prior year construction projects.

Sewerage District No. 1 of Tangipahoa Parish
Notes to the Financial Statements
As of and for the Years Ended December 31, 2006

13. Prior Period Adjustment

The prior period financial statements were restated to record prepaid insurance. The adjustment to beginning net assets is as follows:

12/31/2005	Beginning Net Assets, Before Prior Period Adjustment	\$ 2,978,163
	Prior Period Adjustment:	
	Recording Prepaid Insurance	<u>11,652</u>
12/31/2005	Beginning Net Assets, After Prior Period Adjustment	<u>\$ 2,989,815</u>

Supplemental Information

Schedule 1

Sewerage District No. 1 of Tangipahoa Parish
Budgetary Comparison Schedule
For the year ended December 31, 2006
With comparative amounts for the fiscal year ended December 31, 2005

	<u>2006 Budget</u>	<u>2006 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2005 Actual</u>
Operating Revenues				
Sewer Service Charges	\$ 721,946	\$ 833,248	\$ 111,302	\$ 586,206
Impact Fees	-	406,852	406,852	-
Connection Fees	28,000	25,875	(2,125)	25,406
Other	6,500	125	(6,375)	8,168
Total Operating Revenues	<u>756,446</u>	<u>1,266,100</u>	<u>509,654</u>	<u>619,780</u>
Operating Expenses				
Salaries and Wages	155,000	138,247	16,753	153,808
Employee Benefits	68,500	64,560	3,940	70,902
Bad Debts	50	8,647	(8,597)	9,289
Billing Costs	58,000	44,006	13,994	59,376
Depreciation	150,000	164,014	(14,014)	145,348
Director's Expense	5,000	2,200	2,800	5,800
Engineering and Surveyor Fees	55,000	28,777	26,223	61,945
Insurance	32,700	20,367	12,333	19,617
Lift Station and Plant Maintenance	144,550	216,935	(72,385)	208,627
Other	5,635	15,000	(9,365)	12,685
Professional Fees	13,000	21,231	(8,231)	18,233
Rent	2,300	1,249	1,051	2,288
Repairs and Maintenance	7,000	12,612	(5,612)	6,931
Supplies	30,750	37,913	(7,163)	36,158
Vehicle Expenses	13,000	10,814	2,186	13,479
Total Operating Expenses	<u>740,485</u>	<u>786,572</u>	<u>(46,087)</u>	<u>824,486</u>
Operating Income (Loss)	<u>15,961</u>	<u>479,528</u>	<u>463,567</u>	<u>(204,706)</u>
Nonoperating Revenues (Expenses)				
USDA Rural Development Grant	-	46,958	46,958	-
Interest Income	5,000	14,193	9,193	4,746
Interest Expense	(55,000)	(84,991)	(29,991)	(87,387)
Total Nonoperating Revenues (Expenses)	<u>(50,000)</u>	<u>(23,840)</u>	<u>26,160</u>	<u>(82,641)</u>
Income (Loss) Before Contributions	<u>(34,039)</u>	<u>455,688</u>	<u>489,727</u>	<u>(287,347)</u>
Contributions and Transfers				
Capital Contributions	-	-	-	10,277
Change in Net Assets	<u>(34,039)</u>	<u>455,688</u>	<u>489,727</u>	<u>(277,070)</u>
Total Net Assets, Beginning	<u>2,989,815</u>	<u>2,989,815</u>	<u>-</u>	<u>3,266,885</u>
Total Net Assets, Ending	<u>\$ 2,955,776</u>	<u>\$ 3,445,503</u>	<u>\$ 489,727</u>	<u>\$ 2,989,815</u>

See independent auditor's report.

Schedule 2

Sewerage District No. 1 of Tangipahoa Parish
Schedule of Compensation Paid to Board Members
For the year ended June 30, 2006

<u>Name and Title / Contact Number</u>	<u>Address</u>	<u>Compensation Received</u>	<u>Term Expiration</u>
Mark Mobley, President (985) 386-2000	P.O. Box 402 Ponchatoula, LA 70454	\$ 300	3/31/10
George Peltier (985) 543-4175	15481 Club Deluxe Road Hammond, LA 70403	780	3/31/08
Wesley Ridgell (985) 543-4175	19228 Highway 40 Loranger, LA 70446	660	2/28/10
Louis Ruffino (985) 542-6143	47263 Milton Road Tickfaw, LA 70466	300	3/31/07
Sonny Thompson (985) 542-3445	40232 Adams Road Hammond, LA 70466	660	3/31/08
Larry Wilson (985) 386-9603	P.O. Box 476 Ponchatoula, LA 70454	300	7/30/10
		<u>\$ 3,000</u>	

See independent auditor's report.

Schedule 3

**Sewerage District No. 1 of Tangipahoa Parish
Schedule of Insurance
For the year ended June 30, 2006**

Insurance Company / Policy Number	Coverage	Amount	Period
St. Paul Travelers 104539119	Employee Dishonesty	\$ 100,000	9/6/2006 to 9/6/2007
American Alternative Insurance Company SDISSK 9102034-2	Commercial General Liability Aggregate Policy Limit: Per Occurance Personal Injury & Produce Liability	3,000,000 1,000,000 1,000,000	12/11/2006 to 12/11/2007
LUBA Casualty Insurance Company	Workers Compensation at Statutory Limitations: Employers Liability	1,000,000	2/27/2006 to 2/27/2007

See independent auditor's report.

Schedule 4

**Sewerage District No. 1 of Tangipahoa Parish
Schedule of Sewer Rates
For the year ended June 30, 2006**

Sewer	
Residential Rates	Commercial Rates
\$ 30.00 - Flat Rate per Household	SC1
	\$ 43.61 - Base Rate Minimum
	\$ 2.50 - Per 1,000 Gallons
	SC2
	\$ 43.61 - Base Rate Minimum
	\$ 4.99 - Per 1,000 Gallons

The above schedule reflects the District's base rates. Rates may vary, in particular for commercial entities, based on engineering analysis of service costs.

As of December 31, 2006 and 2005, the District had the following number of customers:

	December 31, 2006	December 31, 2005	Increase (Decrease)
Customers			
Residential	1,849	1,689	160
Commercial	31	22	9
Total Customers	<u>1,880</u>	<u>1,711</u>	<u>169</u>

See independent auditor's report.

Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2006

Section I - Internal Control and Compliance Material to the Financial Statements

Reference Number: 2005-C1 - Non-compliance with Bond Covenants (Formerly Finding No. 05-01)

Year Initial Finding Occurred: Fiscal year ending December 31, 2005

Description of Finding:

This finding for the fiscal year ended December 31, 2005 noted that the accumulated Reserve Fund balance of \$26,514, and the accumulated Depreciation and Contingency Fund balance of \$26,160 had been used to pay bond installments, without the authorization of the lender, the U.S. Department of Agriculture, Rural Utilities Service.

For the fiscal year ended December 31, 2006, the cumulative deposit requirement for the Reserve Fund totaled \$35,829, and the cumulative deposit requirement for the Depreciation and Contingency Fund totaled \$35,504. At the end of the fiscal year ended December 31, 2006, the District had made deposits to each of these funds, bringing actual cash balances to \$20,550 for the Reserve Fund and \$20,550 for the Depreciation and Contingency Fund. In April of 2007, the District transferred \$17,342 to each of these funds, bringing the actual balance for each of these accounts to \$37,982, exceeding the required Reserve Fund and Depreciation and Contingency Fund cumulative deposit requirement. In addition, in August of 2007, the Board of Commissioners authorized the transfer of funds to meet the deposit requirements through December 31, 2007.

Corrective Action Planned (Response by Management):

The Board of Commissioners of Sewerage District No. 1 of Tangipahoa Parish has transferred the funds to fully fund the Reserve Fund and Depreciation Fund in accordance with bond covenants.

Corrective Action Taken: Final

Description of Corrective Action Taken:

Corrective Action is listed as final since the Sewerage District No. 1 of Tangipahoa Parish since at the time of the audit report, had taken the necessary actions to fully fund the Reserve Fund and Depreciation and Contingency Funds.

Reference Number: 2005-C2 - Non-compliance with Bond Covenants (Formerly Finding No. 05-01)

Year Initial Finding Occurred: Fiscal year ending December 31, 2005

Description of Finding:

This finding for the fiscal year ending December 31, 2005, cited inadequate rates resulting in a net operating loss and non-compliance to bond debt covenants requiring a 120% ratio of net revenues (before interest expense, depreciation, and other non-cash flow items) to debt service requirements (including bond installments, and required deposits for Reserve Fund & Depreciation and Contingency Fund).

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2006**

For the fiscal year ending December 31, 2006 the Sewerage District No. 1 of Tangipahoa Parish enacted a rate increase and collected impact fees (administrative charges) improving the ratio to 537%, well exceeding the required ratio of 120%, allowing the District to plan for the needs of an increasing population and for planned growth of systems serving business enterprises in Tangipahoa Parish.

Corrective Action Planned (Response by Management):

Sewerage District No. 1 of Tangipahoa Parish complied to audit recommendations and has taken the steps necessary to comply with bond covenants and meet the needs of its present and future customers.

Corrective Action Taken: Final

Reference Number: 2005-C1 – Cash Balance not Properly Monitored (Formerly Finding No. 05-04)

Year Initial Finding Occurred: Fiscal year ending December 31, 2005

Description of Finding:

The finding for the fiscal year ending December 31, 2005, cited a negative cash balance of \$7,311.

At December 31, 2006, the cash balance of the operations and maintenance account was \$155,978.

Corrective Action Planned (Response by Management):

The problem has been corrected.

Corrective Action Taken: Final

Section II - Internal Control and Compliance Material to Federal Awards

No Findings for Section II.

Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2006

Section III - Management Letter

Reference Number: 2005-M1 – Tracking Sewerage District Impact Fees (Formerly Finding No. 05-01)

Year Initial Finding Occurred: Fiscal year ending December 31, 2005

Description of Finding:

The finding for the fiscal year ending December 31, 2005 cited inadequate controls for the collection of assessed impact fees. It was noted that impact fees were assessed for fifteen owners and developers of various subdivision and apartment complexes wishing to be accepted into the District. In some cases the District waived these fees or a portion of these fees in exchange for the donation of land, and/or lift stations to the District. Problems were noted in tracking the fees and well as in determining the fair market value of the systems donated.

Review of controls for the fiscal year ending December 31, 2006 noted similar problems, but in each case the impact fee or change in impact fee was traceable to the minutes of the Board of Commissioners. Excessive time was needed to trace impact fees to authorization since the impact fee authorization to final acceptance may span several years. The problems in tracking and recording eventual donations at fair market continue. We noted that each impact fee is based on an engineering assessment which is required since the cost to meet applicable health department and environmental standards will vary with the quality of the systems being donated to the District for continued maintenance. This is a revenue source that has increased in importance for the District and we recommend that the District consider incorporating components similar to the listing below into a spreadsheet or database tracking impact fees from initial date reviewed to final collection of impact fee and/or donation of system to the District:

- 1) Name of Project/Client Name
- 2) Initial Date Discussed by Board
- 3) Initial Status (such as Pending Determination of Impact Fee, Completion of Construction, or Valuation of Donated Facilities)
- 4) Date Impact Fee Approved by Board
- 5) Amount of Impact Fee
- 6) Date Impact Fee Adjusted by Board
- 7) Total Adjustment to Impact Fee
- 8) Total Revised Impact Fee
- 9) Date Impact Fee Collected
- 10) Amount of Impact Fee Collected.
- 11) Valuation of Donated Facilities
- 12) Date of Acceptance of Donated Facilities

We recommend that upon acceptance of a system, the District obtain an engineering valuation of the donated system and add the donation at fair market value to the capital asset records of the District. In addition, since the authorization and the collection of revenues may span several years, we recommend that District's CPA be involved in the review or tracking of impact fees.

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2006**

Corrective Action Planned (Response by Management):

We are working on a system to track impact fees with the District's CPA and plan to have an improved system in place to track impact fees by the end of fiscal year 2007. We will also track the donated systems and obtain fair market valuations from our engineer and add the capital assets to our financial records.

Corrective Action Taken: Partial

Description of Corrective Action Taken:

The finding is listed as partial until an improved system for tracking impact fees is in place.

**Corrective Action Plan for Current Year Findings
For the Year Ended December 31, 2006**

Section I - Internal Control and Compliance Material to the Financial Statements

No Findings for Section I.

Section II - Internal Control and Compliance Material to Federal Awards

No Findings for Section II.

Section III - Management Letter

Reference Number: 2006-M1 (Business Auto Insurance)

Description of Finding:

In the review of insurance coverage and calculation of prepaid insurance for the fiscal year ended December 31, 2006, we noted that business auto insurance coverage was still provided under the insurance policy for the Tangipahoa Parish Council. Per discussion with management of the Council, insurance is carried for the vehicles since the Tangipahoa Parish Council has title to the vehicles.

We recommend that this matter be referred to legal counsel to determine the steps necessary to transfer title to the District, and that the District obtain separate business auto insurance.

Corrective Action Planned (Response by Management):

We will refer this matter to legal counsel.

Anticipated Completion Date: We will refer this matter to legal counsel immediately and obtain separate business auto insurance coverage when title is transferred to the District.

Contact Person:

George Peltier, President
Sewerage District No. 1 of Tangipahoa Parish
15481 Club Deluxe Rd.
Hammond, LA 70403
(985) 543-4175

Reference Number: 2006-M2 (Payments due Tangipahoa Parish Council)

Description of Finding:

Prior to the fiscal year ending December 31, 2006, accounting services were provided by the Tangipahoa Parish Council for Sewerage District No. 1 of Tangipahoa Parish. Some expenses continued to be paid during the transition. At fiscal year ending the District had recorded a total of \$22,377 as due and payable to the Parish Council. Of this amount, \$15,844 was recorded for bond installments made by the Council on behalf of the District. We were unable to directly confirm the bond installment payments with the Council and in discussions with the Council we noted that fiscal agents had changed for the Council. We

**Corrective Action Plan for Current Year Findings
For the Year Ended December 31, 2006**

recommend that the District, prior to payment of the \$15,844 confirm directly that the payments were not drafted from a District account before fiscal agents changed.

As noted in *Footnote 12 – Contingent Liabilities*, there are additional amounts billed by the Parish Council totaling \$27,648 as follows:

- Business auto insurance of \$8,109. Since the business auto insurance includes charges for all Council vehicles, we recommend that the District request from the Council, or have the Council obtain from the insurance agent, a listing of premiums per vehicle.
- Electricity bills of \$19,182. The electricity bills are included within billings of service charges for numerous locations. We recommend that the charges be broken out separately by the District and compared to District payments for the same periods to avoid duplicate payments.
- Telephone bill of \$357. It is recommended that the District verify that this is a pro-rated charge since the facilities housed another governmental entity.

We recommend that the District obtain the information noted above and pay for the amounts actually due the Parish Council.

Corrective Action Planned (Response by Management):

We will comply with management recommendations.

Anticipated Completion Date: We will review this matter immediately to determine amounts due to the Council no later than December 31, 2007.

Contact Person:

George Peltier, President
Sewerage District No. 1 of Tangipahoa Parish
15481 Club Deluxe Rd.
Hammond, LA 70403
(985) 543-4175

Reference Number: 2006-M3 (Construction Records)

Description of Finding:

We noted during the financial audit for the fiscal year ending December 31, 2006 that construction records were in numerous locations and not in all cases centralized. In each case, we were able to substantiate construction payments. Timely reporting of construction expenditures and related accruals of payables to contracts is facilitated by the centralization of files. We recommend that a minimum, a copy of the construction contract award, contract change orders, and partial payment estimates be provided to the District's CPA for each construction project.

**Corrective Action Plan for Current Year Findings
For the Year Ended December 31, 2006**

Corrective Action Planned (Response by Management):

We have discussed this matter with our CPA and will centralize reporting for construction projects.

Anticipated Completion Date: We will comply to this recommendation by December 31, 2007.

Contact Person:

George Peltier, President
Sewerage District No. 1 of Tangipahoa Parish
15481 Club Deluxe Rd.
Hammond, LA 70403
(985) 543-4175

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To Board of Commissioners
Sewerage District No. 1 of Tangipahoa Parish
Tangipahoa Parish Council
Hammond, Louisiana

We have audited the basic financial statements of the Sewerage District No. 1 of Tangipahoa Parish, as of and for the year ended December 31, 2006, and have issued our report thereon dated August 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Sewerage District No. 1 of Tangipahoa Parish's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sewerage District No. 1 of Tangipahoa Parish's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

To the Board of Commissioners
Sewerage District No. 1 of Tangipahoa Parish
Tangipahoa Parish Council
Hammond, Louisiana
Page 2

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's 'financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we have included management recommendations that will improve the controls over financial reporting as Finding No. 2005-M1 within the *Summary Schedule of Prior Year Audit Findings*, as Findings 2006-M1, 2006-M2, and 2006-M3, within the *Corrective Action Plan for Current Year Findings*.

This report is intended for the information of management and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Bruce Harrell & Co.", is written in a cursive, stylized script.

Bruce Harrell & Company, CPAs
A Professional Accounting Corporation
August 17, 2007